CITY OF DETROIT DOWNTOWN
DEVELOPMENT AUTHORITY
(A Component Unit of the
City of Detroit, Michigan)

FINANCIAL STATEMENTS

June 30, 2007 and 2006

Michigan Department of Treasury
496 (02/06)

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type	Local Unit Name	County
☐County ☒City ☐Twp ☐Village ☐Other	Detroit Downtown Development Authority	Wayne

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
June 30, 2007	September 24, 2007	October 3, 2007

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

	YES	NO	**Check each applicable box below.** (See instructions for further detail.)
1.	☒	☐	All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2.	☒	☐	There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3.	☒	☐	The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4.	☒	☐	The local unit has adopted a budget for all required funds.
5.	☒	☐	A public hearing on the budget was held in accordance with State statute.
6.	☒	☐	The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7.	☒	☐	The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8.	☒	☐	The local unit only holds deposits/investments that comply with statutory requirements.
9.	☒	☐	The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10.	☒	☐	There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11.	☒	☐	The local unit is free of repeated comments from previous years.
12.	☒	☐	The audit opinion is UNQUALIFIED.
13.	☒	☐	The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14.	☒	☐	The board or council approves all invoices prior to payment as required by charter or statute.
15.	☒	☐	To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	☒	
The letter of Comments and Recommendations	☒	
Other (Describe)	☐	

Certified Public Accountant (Firm Name)	Telephone Number		
George Johnson & Company	(313) 965-2655		
Street Address	**City**	**State**	**Zip**
1200 Buhl Building, 535 Griswold	Detroit	MI	48226
Authorizing CPA Signature	**Printed Name**	**License Number**	
George Johnson & Company	George G. Johnson, C.P.A.	1101006025	

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

CONTENTS

George Johnson
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INDEPENDENT AUDITORS' REPORT

September 24, 2007

To the Board of Directors
City of Detroit Downtown Development Authority
Detroit, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Detroit Downtown Development Authority ("DDA"), a component unit of the City of Detroit, Michigan, as of, and for the years ended, June 30, 2007 and 2006, which collectively comprise DDA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of DDA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of DDA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of DDA as of June 30, 2007 and 2006, and the respective changes in financial position thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis and schedules of revenue and expenditures - budget and actual (general fund) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

George Johnson & Co.

CERTIFIED PUBLIC ACCOUNTANTS

This section of the annual report of the City of Detroit Downtown Development Authority ("DDA") presents management's discussion and analysis of DDA's financial performance during the fiscal years that ended on June 30, 2007 and 2006. Please read it in conjunction with DDA's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Capitalizing on the momentum generated from all of the improvements made in advance of hosting Major League Baseball's All-Star game and the Super Bowl, DDA continued to make improvements to the Downtown District, along with the development of a strategy to reinvent the Harmonie Park area as part of the new Paradise Valley Project. The Lower Woodward Improvement Program, a three-year initiative to build new streetscapes, improve facades on buildings, and provide gap financing, which was a resounding success, was continued and extended to provide new looks to cross-streets, as well as continued facade improvements.

The Lower Woodward Improvement Program and Paradise Valley were not alone as major activities of DDA. The Book Cadillac Project continued on its path. An office building on top of the Kennedy Garage opened, and the Campus Martius and the East Riverfront Roads projects continued. Net assets increased as tax increment receipts financed the purchase of buildings for temporary holdings as part of the Paradise Valley Project and other assets.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report contains two types of financial statements. The statements of net assets and statements of activities (which are presented on pages 7 and 8) are considered government-wide financial statements. The balance sheets and statements of revenue, expenditures, and fund balances for governmental funds (which are presented on pages 9, 10, and 12) are considered fund financial statements. A further discussion of each type of statement follows.

Government-Wide Financial Statements

The government-wide financial statements report information about DDA as a whole using accounting methods similar to those used by private-sector companies and non-profit organizations. The statements of net assets include all of DDA's assets and liabilities. All of the current year's revenue and expenses are accounted for in the statements of activities, regardless of when cash is received or paid.

The two government-wide financial statements report DDA's net assets and how they have changed. Net assets represent the difference between DDA's assets and liabilities, and they represent one way to measure DDA's financial health, or position.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial Statements (continued)

Over time, increases or decreases in DDA's net assets are an indicator of whether its financial health is improving or deteriorating.

Fund Financial Statements

The fund financial statements provide more detailed information about DDA's funds, not DDA as a whole. Funds are accounting devices that DDA uses to keep track of specific sources of funding and spending for particular purposes.

Most of DDA's activities are included in governmental funds, which focus on how cash, and other financial assets that can be readily converted to cash, flow in and out, and show the balances left at the end of the year that are available for spending. As such, the fund financial statements provide a detailed short-term view that shows whether there are more or fewer financial resources that can be spent in the near future to finance DDA's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, additional information is provided on pages 11 and 13 that explains the relationship between the fund financial statements and the government-wide financial statements.

The notes to the financial statements, which begin on page 14, explain some of the information in the financial statements and provide more detailed data. A comparison of DDA's general fund revenue and expenditures to its budget is provided on page 42.

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE

Table 1 reflects the condensed statements of net assets as of June 30, 2007, 2006, and 2005:

Table 1
Statements of Net Assets
June 30, 2007, 2006, and 2005
(in millions of dollars)

	2007	2006	2005
Assets:			
Cash and investments	$ 89.1	$ 82.2	$ 84.4
Notes receivable	28.6	23.6	24.1

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)

Table 1
Statements of Net Assets (continued)
June 30, 2007, 2006, and 2005
(in millions of dollars)

	2007	2006	2005
Assets (continued):			
Capital assets	$ 30.4	$ 31.3	$ 32.2
Other assets	69.9	62.1	62.3
Total Assets	**218.0**	**199.2**	**203.0**
Liabilities:			
Long-term liabilities:			
Due or expected to be paid within one year	12.5	11.8	11.1
Due or expected to be paid in more than one year	132.3	144.9	156.7
Other liabilities	21.3	15.0	16.1
Total Liabilities	**166.1**	**171.7**	**183.9**
Net Assets (Deficit):			
Invested in capital assets, net of related debt	30.4	31.3	32.2
Restricted for development	20.3	-0-	-0-
Unrestricted	1.2	(3.8)	(13.1)
Total Net Assets	**$ 51.9**	**$ 27.5**	**$ 19.1**

The net assets of DDA increased 89 percent to $51.9 million. This increase is attributable to several factors. Tax receipts were used to invest temporarily in buildings in the Harmonie Park area as part of the new Paradise Valley Project. Program revenue decreased this year as DDA received a one-time payment from the Economic Development Corporation of the City of Detroit during the year ended June 30, 2006 for ongoing projects. Expenses in aggregate were down from the previous year, mainly due to the massive amount of work on the Lower Woodward Improvement Program in the previous year in anticipation of the sporting events. Assets increased during the year due to the temporary investment in the Paradise Valley properties. Total liabilities have remained relatively consistent over the last two years. Long-term liabilities continue to decrease annually by the debt service payments on the outstanding bonds contract payable.

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)

Table 2 reflects the condensed statements of activities for the years ended June 30, 2007, 2006, and 2005:

Table 2
Statements of Activities
For the Years Ended June 30, 2007, 2006, and 2005
(in millions of dollars)

	2007	2006	2005
Revenue:			
Program revenue	$ 14.1	$ 19.0	$ 9.4
General revenue:			
Property taxes	33.6	32.3	18.2
Other revenue	0.6	0.1	0.9
Total Revenue	**48.3**	**51.4**	**28.5**
Expenses:			
Economic development	23.9	43.0	45.5
Net Increase (Decrease) in Net Assets	**24.4**	**8.4**	**(17.0)**
Net Assets, Beginning of Year	27.5	19.1	36.1
Net Assets, End of Year	**$ 51.9**	**$ 27.5**	**$ 19.1**

The principal changes in this table are the decreases in expenses due to less activity than the prior two years, which had large expenditures in the Lower Woodward Improvement Program.

The following are highlights of the comparison of DDA's general fund revenue and expenditures to its budget, as shown on page 42:

- DDA holds title to the Kennedy Square Garage. DDA expected to receive lease revenue from the garage once construction was completed; however, delays in the process resulted in a January 2007 opening and decreased revenue.

FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE (CONTINUED)

- Administrative and operating expenses did not meet budgeted levels due to tight control over parking and contingency-based expenses in the general fund. Professional fees were slightly higher than budgeted due to increased insurance and other fees.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

As of June 30, 2007, DDA held long term capital assets of $30.4 million. This balance consisted primarily of various parcels of land, as well as over $25 million invested in the Kennedy Garage.

DDA had $145 million in bonds outstanding as of June 30, 2007, which is a decrease of eight percent from June 30, 2006. The decrease is due to debt service payments on the bonds, which were made in accordance with the schedule of payments required in the bond issuance. On July 1, 2007, a scheduled debt service payment was made, further decreasing the outstanding balance of the bonds. This activity is summarized in Note H to the financial statements.

ECONOMIC FACTORS

DDA receives a large majority of its revenue through tax receipts. The economic health of the downtown area has a substantial impact on the level of revenue received. The rebirth of downtown Detroit continues and, as long as it does, DDA should continue to be funded adequately. Projects such as the Lower Woodward Improvement Program and Paradise Valley should aid in improving the future of downtown Detroit.

FINANCIAL CONTACT

This financial report is designed to present its users with a general overview of DDA's finances and to demonstrate DDA's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the office of the chief financial officer of Detroit Economic Growth Corporation, 500 Griswold, Suite 2200, Detroit, Michigan 48226.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

STATEMENTS OF NET ASSETS

June 30, 2007 and 2006

	Governmental Activities	
	2007	**2006**
Assets:		
Cash (Note A)	$ 459,436	$ 526,449
Escrow deposits (Note A)	152,729	145,794
Investments (Note A)	88,458,948	81,562,876
Accounts and contracts receivable (net of allowance of $36,661 in 2007 and 2006)	1,517,189	2,822,972
Property taxes receivable, net (Note C)	5,369,073	5,517,095
Accrued interest receivable, net (Note B)	723,328	870,682
Notes receivable, net (Notes A and B)	28,599,009	23,579,136
Due from City of Detroit (Note E)	33,600,000	33,600,000
Land contracts receivable, net (Note F)	1,414,927	1,820,200
Property held for development (Note G)	24,051,173	14,070,234
Prepaid expenses	110,778	95,564
Unamortized bond and note issue costs (Note A)	3,146,002	3,307,981
Capital assets (Note D):		
Nondepreciable capital assets	7,544,670	7,544,670
Depreciable capital assets, net	22,832,105	23,732,413
Total Assets	**217,979,367**	**199,196,066**
Liabilities:		
Accounts payable	451,606	1,315,560
Accrued interest payable	3,779,708	5,931,374
Due to other governmental agencies	7,751,911	630,313
Property tax advances (Note C)	9,192,198	7,109,778
Escrow deposits payable (Note I)	17,099	17,014
Long-term liabilities (Note H):		
Due or expected to be paid within one year	12,534,697	11,794,697
Due or expected to be paid in more than one year	132,341,376	144,876,073
Total Liabilities	**166,068,595**	**171,674,809**
Net Assets (Deficit):		
Invested in capital assets, net of related debt	30,376,775	31,277,083
Restricted for development	20,290,930	-0-
Unrestricted	1,243,067	(3,755,826)
Total Net Assets	**$ 51,910,772**	**$ 27,521,257**

See notes to financial statements.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2007 and 2006

	Governmental Activities	
	2007	**2006**
Expenses:		
Economic development program:		
Project costs	$ 9,798,735	$ 23,106,717
Administrative and operating expenses (Note A)	3,380,002	4,024,501
Interest expense	7,559,420	11,862,754
Professional fees	408,356	381,040
Provision for uncollectible loans and taxes (Notes B and C)	1,728,424	2,558,775
Amortization of bond and note issue costs (Note A)	161,979	161,979
Depreciation (Note D)	900,308	904,928
Total Program Expenses	**23,937,224**	**43,000,694**
Program Revenue:		
Economic development program	14,089,321	19,018,000
Net Program Expense	**9,847,903**	**23,982,694**
General Revenue:		
Property taxes (Note C)	33,595,451	32,299,042
Other revenue	641,967	104,540
Total General Revenue	**34,237,418**	**32,403,582**
Net Increase in Net Assets	**24,389,515**	**8,420,888**
Net Assets, Beginning of Year	27,521,257	19,100,369
Net Assets, End of Year	**$ 51,910,772**	**$ 27,521,257**

See notes to financial statements.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

BALANCE SHEETS - GOVERNMENTAL FUNDS

June 30, 2007 and 2006

	2007				2006			
	General Fund	Development Fund	Debt Service Fund	Total All Funds	General Fund	Development Fund	Debt Service Fund	Total All Funds
ASSETS								
Cash (Note A)	$ 85,786	$ 373,650	$ -0-	$ 459,436	$ 15,458	$ 510,991	$ -0-	$ 526,449
Escrow deposits (Note A)		152,729		152,729		145,794		145,794
Investments (Note A)	432,529	76,271,087	11,755,332	88,458,948	359,019	68,184,881	13,018,976	81,562,876
Accounts and contracts receivable (net of allowance of $36,661 in 2007 and 2006 in the general fund)	33,928	1,483,261		1,517,189	330,710	2,492,262		2,822,972
Property taxes receivable, net (Note C)	810,000		4,559,073	5,369,073	810,000		4,707,095	5,517,095
Accrued interest receivable, net (Note B)		723,328		723,328		870,682		870,682
Notes receivable, net (Notes A and B)		28,599,009		28,599,009		23,579,136		23,579,136
Due from City of Detroit (Note E)		33,600,000		33,600,000		33,600,000		33,600,000
Land contract receivable, net (Note F)		94,727		94,727				-0-
Property held for development (Note G)		24,051,173		24,051,173		14,070,234		14,070,234
Prepaid expenditures	110,778			110,778	95,564			95,564
Total Assets	**$ 1,473,021**	**$ 165,348,964**	**$ 16,314,405**	**$ 183,136,390**	**$ 1,610,751**	**$ 143,453,980**	**$ 17,726,071**	**$ 162,790,802**

See notes to financial statements.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

BALANCE SHEETS - GOVERNMENTAL FUNDS (CONTINUED)

June 30, 2007 and 2006

	2007				2006			
	General Fund	**Development Fund**	**Debt Service Fund**	**Total All Funds**	**General Fund**	**Development Fund**	**Debt Service Fund**	**Total All Funds**
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	$ 229,954	$ 221,652	$ -0-	$ 451,606	$ 172,582	$ 1,142,978	$ -0-	$ 1,315,560
Accrued interest payable			3,779,708	3,779,708			5,931,374	5,931,374
Due to other governmental agencies		7,751,911		7,751,911		630,313		630,313
Property tax advances (Note C)		9,192,198		9,192,198		7,109,778		7,109,778
Escrow deposits payable (Note I)		17,099		17,099		17,014		17,014
Maturing bonds contract payable (Note H)			12,534,697	12,534,697			11,794,697	11,794,697
Total Liabilities	**229,954**	**17,182,860**	**16,314,405**	**33,727,219**	**172,582**	**8,900,083**	**17,726,071**	**26,798,736**
Fund Balances:								
Reserved for development		148,166,104		148,166,104		134,553,897		134,553,897
Reserved for prepaid expenditures	110,778			110,778	95,564			95,564
Unreserved	1,132,289			1,132,289	1,342,605			1,342,605
Total Fund Balances	**1,243,067**	**148,166,104**	**-0-**	**149,409,171**	**1,438,169**	**134,553,897**	**-0-**	**135,992,066**
Total Liabilities and Fund Balances	**$ 1,473,021**	**$ 165,348,964**	**$ 16,314,405**	**$ 183,136,390**	**$ 1,610,751**	**$ 143,453,980**	**$ 17,726,071**	**$ 162,790,802**

See notes to financial statements.

RECONCILIATIONS OF GOVERNMENTAL FUNDS BALANCE SHEETS TO STATEMENTS OF NET ASSETS

June 30, 2007 and 2006

	2007	2006
Total Fund Balances, Governmental Funds	$ 149,409,171	$ 135,992,066
Amounts reported for governmental activities in the statements of net assets differ from amounts reported in the governmental funds balance sheets due to the following:		
Long-term accounts receivable applicable to governmental activities are not due and collectible in the current period and, therefore, are not reported in the funds. These assets consist of the following:		
Land contract receivable	1,320,200	1,820,200
Long-term costs used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of the following:		
Unamortized bond and note issue costs	3,146,002	3,307,981
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of the following:		
Nondepreciable capital assets	7,544,670	7,544,670
Depreciable capital assets:		
Cost	26,833,841	26,833,841
Less: Accumulated depreciation	(4,001,736)	(3,101,428)
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities consist of the following:		
Contract and bonds contract payable	(132,341,376)	(144,876,073)
Total Net Assets, Governmental Activities	**$ 51,910,772**	**$ 27,521,257**

See notes to financial statements.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

STATEMENTS OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

For the Years Ended June 30, 2007 and 2006

	2007				2006			
	General Fund	Development Fund	Debt Service Fund	Total All Funds	General Fund	Development Fund	Debt Service Fund	Total All Funds
Revenue:								
Property taxes (Note C)	$ 774,726	$ 20,286,028	$ 12,534,697	$ 33,595,451	$ 819,592	$ 19,684,753	$ 11,794,697	$ 32,299,042
Other revenue	641,967	14,089,321		14,731,288	104,540	19,018,000		19,122,540
Total Revenue	**1,416,693**	**34,375,349**	**12,534,697**	**48,326,739**	**924,132**	**38,702,753**	**11,794,697**	**51,421,582**
Expenditures:								
Current:								
Project costs		9,298,735		9,298,735		23,106,717		23,106,717
Administrative and operating expenses (Note A)	1,703,439	1,676,563		3,380,002	1,916,520	2,107,981		4,024,501
Interest expense		7,559,420		7,559,420		11,862,754		11,862,754
Professional fees	408,356			408,356	381,040			381,040
Provision for uncollectible loans and taxes (Notes B and C)		1,728,424		1,728,424		2,558,775		2,558,775
Debt service (Note H)			12,534,697	12,534,697			11,794,697	11,794,697
Total Expenditures	**2,111,795**	**20,263,142**	**12,534,697**	**34,909,634**	**2,297,560**	**39,636,227**	**11,794,697**	**53,728,484**
Excess (Deficiency) of Revenue over Expenditures	**(695,102)**	**14,112,207**	**-0-**	**13,417,105**	**(1,373,428)**	**(933,474)**	**-0-**	**(2,306,902)**
Other Financing Sources (Uses):								
Interfund transfers	500,000	(500,000)		-0-	1,000,000	(1,000,000)		-0-
Net Increase (Decrease) in Fund Balances	**(195,102)**	**13,612,207**	**-0-**	**13,417,105**	**(373,428)**	**(1,933,474)**	**-0-**	**(2,306,902)**
Fund Balances, Beginning of Year	1,438,169	134,553,897	-0-	135,992,066	1,811,597	136,487,371	-0-	138,298,968
Fund Balances, End of Year	**$ 1,243,067**	**$ 148,166,104**	**$ -0-**	**$ 149,409,171**	**$ 1,438,169**	**$ 134,553,897**	**$ -0-**	**$ 135,992,066**

See notes to financial statements.

RECONCILIATIONS OF GOVERNMENTAL FUNDS STATEMENTS OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES TO STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2007 and 2006

	2007	2006
Net Increase (Decrease) in Fund Balances, Governmental Funds	$ 13,417,105	$ (2,306,902)
Amounts reported for governmental activities in the statements of activities differ from amounts reported in the governmental funds statements of revenue, expenditures, and changes in fund balances due to the following:		
Capital outlays are reported as expenditures in governmental funds. However, in the statements of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. During the years presented, these amounts are as follows:		
Depreciation expense	(900,308)	(904,928)
Long-term accounts receivable applicable to governmental activities are not available for current use and, therefore, increases and decreases in these balances are not reported in the funds. During the years presented, these increases and decreases are as follows:		
Reduction in land contract receivable balance due to achievement of certain goals (Note F)	(500,000)	-0-
Bond and note issue costs are reported as expenditures in governmental funds. However, in the statements of activities, bond and note issue costs are allocated over the lives of the related debts as amortization expense. During the years presented, these amounts are as follows:		
Amortization expense	(161,979)	(161,979)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statements of net assets. During the years presented, these amounts are as follows:		
Repayment of bonds contract payable	12,534,697	11,794,697
Net Increase in Net Assets, Governmental Activities	**$ 24,389,515**	**$ 8,420,888**

See notes to financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities and Purpose

The City of Detroit Downtown Development Authority ("DDA") was created by the Detroit City Council by Ordinance No. 119-H on May 20, 1976, under the provisions of Act 197, Public Acts of Michigan of 1975. DDA was established for the purpose of promoting and developing economic growth in the downtown business district of the City of Detroit, Michigan (the "City"). DDA has been authorized to fund its activities by an ad valorem tax of one mill on real and tangible personal property not exempt by laws in the downtown development district, and the issuance of negotiable revenue and tax increment obligations to finance the development activities of DDA.

DDA may issue tax increment bonds and may not pledge for annual debt service requirements for any one year amounts in excess of 80 percent of the estimated tax increment revenue to be received from the development district for that year, or may pledge solely the tax increments of the project for which the bonds had been issued, and any other revenue for which DDA may specifically pledge.

For financial reporting purposes, DDA is a component unit of the City because the members of DDA's Board of Directors are appointed by the City's mayor and are confirmed by the Detroit City Council, which approves DDA's budget. There are no fiduciary funds or component units included in the accompanying financial statements.

Basis of Presentation

The financial statements of DDA consist of government-wide financial statements, which include the statements of net assets and statements of activities, and fund financial statements, which include the balance sheets and statements of revenue, expenditures, and fund balances for governmental funds.

Government-Wide Financial Statements

The government-wide financial statements report information about all of DDA's assets, liabilities, net assets, revenue, and expenses, similar to the financial statements of non-governmental enterprises.

Fund Financial Statements

For purposes of the fund financial statements, the accounts of DDA are organized on the basis of governmental funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue, and expenditures. The various funds are summarized by type in the fund financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (continued)

Fund Financial Statements (continued)

The following funds are used by DDA:

General Fund

The general fund is the general operating fund of DDA. It is used to account for all financial resources other than those required to be accounted for in another fund.

Development Fund

The development fund is used to account for financial resources to be used for the acquisition or construction of capital projects. DDA finances its development plan by capturing the tax proceeds on the increase in assessed value within the tax increment district located within the downtown area. Funds raised from this levy are restricted for use within the tax increment district pursuant to the Tax Increment Financing Plan.

Debt Service Fund

The debt service fund accounts for the servicing of general long-term obligations not being financed by proprietary or similar trust funds.

Basis of Accounting

Government-Wide Financial Statements

The government-wide financial statements are prepared on the accrual basis of accounting using the economic resources measurement focus. Accordingly, revenue is recorded when earned, and expenses are recorded when incurred. Grants and other revenue intended for use within the development fund are classified as program revenue. All other revenue, including all property tax revenue, is classified as general revenue.

Fund Financial Statements

The fund financial statements are prepared on the modified accrual basis of accounting using the flow of current financial resources as a measurement focus.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (continued)

Fund Financial Statements (continued)

Under the modified accrual basis of accounting, revenue is recorded when susceptible to accrual, which is when it is both measurable and available. "Available" means collectible within the current period or soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred, if measurable. In applying the susceptible-to-accrual concept to intergovernmental revenue, the legal and contractual requirements of the numerous individual programs are used as guidance. Monies virtually unrestricted as to purpose of expenditure and revocable only for failure to comply with prescribed compliance requirements are reflected as revenue at the time of receipt or earlier if the susceptible-to-accrual criteria are met.

Administration

For the years ended June 30, 2007 and 2006, DDA entered into agreements with Detroit Economic Growth Corporation ("DEGC") for administrative and professional services at an annual cost not to exceed $1,500,000 per year for the years ended June 30, 2007 and 2006. These expenditures are reflected in administrative expenses for services rendered for each year.

Accounting for Notes Receivable

DDA is in the business of loaning funds to various companies for which, in some cases, the collection process does not begin immediately. In those instances, the collection process may not begin for a number of years. DDA provides a reserve for these loans if and when the loans are deemed to be partially or fully uncollectible. Due to the nature of the collection terms on these loans, recoverability of these loans may be uncertain and, furthermore, may not be evident for a number of years. The ultimate collectibility of these loans is dependent upon the long-term viability of these companies.

Grant Revenue

Grant revenue is recognized when expenses that are reimbursable under an agreement with the funding source are incurred.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Deposits

State of Michigan statutes require that certificates of deposit, savings accounts, deposit accounts, and depository receipts be made with banks doing business and having a place of business in the State of Michigan that are also members of a federal or national insurance corporation.

Custodial credit risk is the risk that, in the event of a bank failure, DDA's deposits may not be returned to DDA. DDA does not have a deposit policy for custodial credit risk.

As of June 30, 2007 and 2006, DDA's carrying amount of deposits and bank balances, and the bank balances that are not covered by federal depository insurance, are as follows:

	2007	2006
Carrying amount of deposits	$ 459,436	$ 526,449
Total bank balances	$ 666,747	$ 684,832
Uninsured and uncollateralized bank balances	$ 556,747	$ 574,832

Investments

Investments are recorded at fair value, based on quoted market prices. As of June 30, 2007 and 2006, DDA's investments are classified as follows:

	2007	2006
Investments held by the counterparty's trust department or agent in DDA's name:		
Money market funds:		
AAAm rating from Standard & Poor's:		
First American Treasury Obligations Fund, Class Y (weighted average maturity of one day)	$ 71,369,617	$ 67,665,688
Federated Government Obligations Fund:		
Maturity date June 30, 2007	6,240,644	-0-
Maturity date June 30, 2006	-0-	3,152,631
Federated Treasury Cash Series Fund (weighted average maturity of 15 days)	748,792	354,870

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

	2007	2006
Investments held by the counterparty's trust department or agent in DDA's name (continued):		
Money market funds (continued):		
AAAm rating from Standard & Poor's (continued):		
J.P. Morgan U.S. Treasury Plus Money Market Fund (weighted average maturity of one day)	$ 35,939	$ 34,362
P-1 rating from Standard & Poor's:		
Comerica Governmental Cash Investment Fund (weighted average maturity of 25 days)	3,999,722	3,277,625
Total Money Market Funds	82,394,714	74,485,176
U.S. Treasury bills:		
Maturity date August 15, 2006	-0-	1,025,050
Repurchase agreements:		
First Independence National Bank	6,064,234	6,052,650
Total Investments	**$ 88,458,948**	**$ 81,562,876**

State of Michigan statutes authorize DDA to invest in obligations and certain repurchase agreements of the U.S. Treasury and related governmental agencies, commercial paper rated prime at the time of purchase and maturing not more than 270 days from the date of purchase, bankers acceptances and certificates of deposit issued or created by any state or national bank insured with the applicable federal agency, investment pools authorized by the Surplus Funds Investment Act, and mutual funds composed entirely of the above investments. DDA has no investment policy that would further limit its investment options.

DDA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, DDA will not be able to recover the value of its investments that are in the possession of an outside party. DDA places no limit on the amount it may invest in any one issuer. Investments that represent five percent or more of DDA's total investments are identified in the preceding schedule.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Escrow Deposits

Escrow deposits are monies which are held in an escrow account administered by a financial institution designated by DDA and are used specifically for a development project. Interest earnings are either capitalized for future development use or are remitted to DDA upon notice. In both cases, interest earnings are recognized as interest income by DDA. Escrow deposits as of June 30, 2007 and 2006 are for the Monroe Garage project.

Unamortized Bond and Note Issue Costs

The costs of issuing the outstanding 1996 and 1998 DDA Tax Incremental bonds (see Note H for details), other than the bond discount, are capitalized on the statements of net assets and are classified as unamortized bond and note issue costs by DDA. They are amortized to financing costs on a ratable basis over the lives of the related debts.

Capital Assets

Capital assets are recorded at historical cost. DDA capitalizes all expenditures for land, buildings, equipment, fixtures, and improvements in excess of $1,000. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Buildings	40 years
Equipment and fixtures	7-25 years
Leasehold improvements	9-40 years

Expenditures for maintenance and repairs are charged to expense. Renewals or betterments which extend the life or increase the value of the properties are capitalized.

Interfund Transactions and Eliminations

Interfund transactions are recorded as a payable by the receiving fund and as a receivable by the advancing fund in the fund financial statements. All interfund transactions and balances have been eliminated in the accompanying financial statements.

Allowance for Doubtful Notes Receivable

DDA charges notes receivable to the allowance for doubtful notes receivable when it is probable that a note receivable is impaired (that is, when DDA will be unable to collect all amounts due according to the contractual terms of the agreement).

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Doubtful Notes Receivable (continued)

Changes in the present value of an obligation's expected future cash flows from one reporting period to the next are recorded as additions or reductions to the allowance for doubtful notes receivable. DDA also includes in the allowance for doubtful notes receivable a general provision based on DDA's historical recovery of these receivables.

Development Fund Projects

DDA is currently involved in several major projects, which primarily include the following:

- Riverfront Residential Project
- Trappers Alley
- Madison Center
- Congress/First Street Hotel Development - Cobo Hall Expansion
- Theater District
- Annis Fur Building Development
- International Hotel
- Ramada/Leland Downtown Hotel
- Harmonie Park Project
- Merchants Row
- Michigan Opera Theatre
- Hilton Garden Inn
- Music Hall Center for the Performing Arts
- Stadia Complex
- Lower Woodward Initiative
- Campus Martius
- East Riverfront District
- Riverfront Promenade
- Kales Building
- Kennedy Square Office Building
- 1001 Woodward Parking Garage
- Au Bon Pain
- Sportsland, Inc.
- Michigan Opera Garage
- Book Cadillac Project
- Broadway Property and Partners
- Lafer Building

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Development Fund Projects (continued)

- Vinton Building
- Mobius Microsystems
- Paradise Valley Project
- Development Financing Small Business Loan Transactions Program:
  - On Wheels, Inc.
  - Cloud Nine Entertainment
  - Fieldstone Properties
  - Opus to Go, L.L.C.
  - Seldom Blues
  - Brush Street, L.L.C.
  - Marmalade Enterprises
  - Diversified Restaurant Group
  - Vincente III, L.L.C.
  - Dunwright, L.L.C.
  - Detroit Breakfast House
  - SVM Development Corporation
  - Rootlevel

Reclassifications

Certain reclassifications have been made to the 2006 financial statements to conform to classifications used in 2007.

NOTE B - NOTES RECEIVABLE

DDA's portfolio of notes receivable as of June 30, 2007 and 2006 is as follows:

Madison Center Limited Partnership

This is a UDAG promissory note dated September 1, 1984, which is secured by a mortgage. Interest only is payable (at 11 percent) through October 1, 1990; the note is payable with interest and principal four times annually in the amount of $122,335 through February 1, 2011, at which time the entire balance and accrued interest is due. The first payment was due January 1, 1988.

NOTE B - NOTES RECEIVABLE (CONTINUED)

Trappers Alley Limited Partnership

Two notes receivable have been issued to Trappers Alley Limited Partnership:

- DDA issued a mortgage note over 40 years, dated December 27, 1983, which is secured by property, with interest at 12 percent. Interest only is payable, to the extent there is sufficient cash flow, for the first 20 years, beginning January 2, 1987; the note is fully amortized over the remaining 20 years.

- DEGC issued a promissory note, dated December 27, 1983; DDA purchased the note from DEGC on June 25, 1987. This note bears annual interest of 11.25 percent and is secured by the borrower's property. DDA has strong concerns regarding the recovery of this loan, as this project has had continuous operating losses. The current underutilization of the space (only two floors of the five-story structure are being used) adds to these concerns. Unpaid interest has been accrued on this loan.

Little Caesar Enterprises, Inc.

This is a promissory note dated October 16, 1987, secured by property. The note is payable in annual installments, based on principal only, commencing on December 31, 1992, with the entire remaining principal balance due on December 31, 2007. Interest shall accrue at two percent above J.P. Morgan Chase Bank's prime rate only upon an event of default, as defined by the loan agreement. The loan was fully repaid during the year ended June 30, 2007.

Annis Historic Properties

This is a promissory note dated August 28, 1988, secured by property, amended on December 9, 1998 and on November 19, 2003. Under the amended terms, interest accrues at a rate of six percent per annum. Principal and interest payments are due monthly. Payments are based upon a 30-year amortization schedule, with a balloon payment due on December 15, 2008 of all outstanding principal and interest.

Tobin-Harmonie Park Limited Partnership

This is a UDAG promissory note dated July 6, 1992, secured by a mortgage. There is no fixed interest rate, but annual payments equal to 15 percent of net annual cash flow are to be made as contingent interest. The entire amount is due 15 years from the completion date of the loan, or no later than August 30, 2008.

NOTE B - NOTES RECEIVABLE (CONTINUED)

Charles A. Forbes

This is a promissory revolving loan note dated February 13, 1990, as amended on May 29, 1997 and again amended on March 1, 1999, secured by a mortgage on various properties. The note does not bear interest. The loan is to be repaid in 19 equal annual installments of $177,500, commencing on December 31, 1999 and continuing through December 31, 2017, with one final installment of $27,500 due on December 31, 2018.

400 Monroe Associates

This is a UDAG promissory note dated February 25, 1988, secured by a mortgage and payable over 15 years. Interest payments are deferred and shall not accrue for years one and two. Interest only is payable in years three through five, and the repayment of principal and interest thereafter shall be payable in monthly installments, based on a 25-year amortization schedule, with a balloon payment in year 15 sufficient to pay off the remaining principal balance plus accrued interest thereon. Interest is payable at three percent per annum. The project was completed July 31, 1992.

Leland House Limited Partnership Company

This is a final promissory note dated July 9, 1991, secured by a mortgage and security agreement. The bankruptcy confirmation order, dated September 27, 1993, restricted the payment on debts so that DDA and the City shall share the payments (no payments in years one through five, $30,000 per year in years six and seven, $60,000 per year in years eight through 28, and $90,000 per year in years 29 and 30) on a prorata basis.

KWA I, L.L.C.

This is a promissory note dated May 30, 2003 for residential loft and ground floor retail development. A payment of $3,750,000 is due seven years from the project closing, with the balance to be repaid via single business tax credits or sale proceeds.

Music Hall Center for the Performing Arts

This is a promissory note dated October 11, 1995, secured by a second position assignment of fee income and a third mortgage on the related real property. Payments of interest only are due for the first two years of this loan; thereafter, fully amortizing principal and interest payments are due for the next 13 years. The note bears an interest rate of 6.5 percent per annum.

NOTE B - NOTES RECEIVABLE (CONTINUED)

Opus to Go, L.L.C.

This is a promissory note dated August 6, 1999, secured by a second lien on receivables, a second position on all asset filings, a second assignment of a lease, and the personal guarantees of the principals of the business. This is a fully amortizing 10-year loan. Interest is payable monthly in arrears and accrues from the date of closing at a rate of five percent per annum.

1529 Broadway, L.L.C.

This is a promissory note dated April 17, 2003, secured by a third mortgage and a corporate guaranty. Payments of interest only are due through May 1, 2005. Payments of principal and interest are due monthly beginning June 1, 2005 and continuing through April 1, 2018. The loan bears an interest rate of five percent per annum, with a balloon payment of the remaining principal balance plus interest due on May 1, 2018.

DHG Associates Limited Partnership

This is a term note dated April 1, 2003, secured by a second mortgage and personal and corporate guarantees. Interest accrues at various rates. At the close of the permanent loan, the borrower shall make a payment of accrued interest. Payments of interest only will be made quarterly until June 30, 2007. Quarterly payments of principal and interest will follow until June 30, 2010, when a balloon payment of the outstanding principal and interest balance will be due.

Brush Street, L.L.C.

This is a promissory note dated October 27, 2000, secured by real property and the personal guarantees of the owners. Payments of principal and interest are due monthly on the loan. The loan bears an interest rate of five percent per annum, with a balloon payment of the remaining principal balance plus interest due on November 1, 2005. This loan was fully repaid during the year ended June 30, 2007.

Fieldstone Properties

This is a promissory note dated April 5, 2002, secured by real property and the personal guarantees of the owners. Payments of interest only are due for the first six months, followed by monthly payments of principal and interest. The loan bears an interest rate of five percent per annum, with a balloon payment of the remaining principal balance plus interest due on April 1, 2012.

NOTE B - NOTES RECEIVABLE (CONTINUED)

1521 Broadway, L.L.C.

This is a promissory note for construction purposes, dated June 26, 2002, secured by real property. No fixed interest is charged on the loan. Repayment is due seven years from the issuance of a final certificate of occupancy for the project, or seven years from the date the borrower converts the construction portion of the bank debt into a permanent loan.

Cloud Nine Entertainment

This is a promissory note dated May 23, 2002, secured by corporate guarantees and the personal guarantees of the owners. No interest accrues, and no payments are due for the first 12 months of the note. Commencing June 1, 2003, payments of principal and interest are due monthly on the loan. The loan bears an interest rate of four percent per annum, with a final payment date of May 1, 2009.

On Wheels, Inc.

This is a promissory note dated August 30, 2001, secured by real property and the personal guarantee of the owner. Payments of principal and interest are due monthly on the loan. The loan bears an interest rate of five percent per annum, with a balloon payment of the remaining principal balance plus interest due on September 1, 2006. This loan was fully repaid during the year ended June 30, 2007.

Kales Building, L.L.C.

This is a construction loan disbursed over the course of the year ended June 30, 2004. The loan will be converted to a permanent loan on the earlier of September 2, 2006 or a conversion date whereby all permanent loan conditions have been met. Repayment of principal will be due on the earlier of September 2, 2013 or seven years from the conversion date.

Seldom Blues, L.L.C.

This is a promissory note, dated May 5, 2004, secured by equipment and the personal guarantee of the owner. Payments of interest only are due for the first 12 months of the loan. After that, payments of principal and interest will be made monthly through and including May 1, 2011. Interest accrues at the rate of four percent per annum.

NOTE B - NOTES RECEIVABLE (CONTINUED)

Redico

This is a promissory note, dated May 6, 2005, for construction of a building on top of a garage owned by DDA. The repayment schedule is contingent upon the cash flow of the developer. Interest accrues at the rate of five percent per annum.

1001 Woodward Parking Garage

This is a promissory note, dated July 26, 2004, secured by a parking garage. The loan is interest-free for the first two years, then bears interest at a rate of one percent per annum, amortized over 13 years, with a balloon payment for the remaining unpaid balance due in 2014.

Sportsland, Inc.

This is a promissory note to a retailer, dated December 23, 2004, secured by equipment and an assignment of a lease. The repayment schedule is contingent upon the retailer's gross sales.

Michigan Opera Garage

This is a promissory note, dated December 8, 2004, secured by a second mortgage. Repayment is due under two separate schedules. \$226,000 of the loan is interest-free for 36 months, then accrues interest at five percent per annum, amortized over 15 years, with a balloon payment for the unpaid balance due in 10 years. The remaining \$800,000 of the loan is interest-free during the term of the first position debt, then accrues interest at four percent per annum with fully amortizing payments thereafter.

Au Bon Pain

This is a promissory note, dated December 13, 2004, secured by equipment and personal guarantees. The note has a 10-year term, with payments of interest only due during the first year, followed by payments of principal and interest over a nine-year amortization period. No interest is charged for the first three months, and then accrues at four percent per annum thereafter.

Marmalade Enterprises

This is a promissory note, dated June 30, 2005, secured by a parking garage and personal guarantees. The loan has a 10-year term and is fully amortizing. Interest accrues at four percent per annum.

NOTE B - NOTES RECEIVABLE (CONTINUED)

Diversified Restaurant Group

This is a promissory note, dated May 12, 2005, secured by equipment and personal guarantees. The loan has a term of five years, with payments of interest only due during the first year, followed by payments of principal and interest over a nine-year amortization period. A balloon payment is due at the end of the fifth year. No interest is charged for the first three months, and then accrues at four percent per annum thereafter.

Vincente III, L.L.C.

This is a promissory note, dated October 12, 2004, secured by a second mortgage, equipment, and a personal guarantee, with payments of interest only due during the first year, followed by payments of principal and interest over a nine-year amortization period. A balloon payment is due at the end of the seventh year. No interest is charged for the first three months, and then accrues at four percent per annum thereafter.

Dunwright, L.L.C.

This is a promissory note, dated March 21, 2005, secured by equipment and a personal guarantee, with payments of interest only due during the first year, followed by payments of principal and interest over a nine-year amortization period. A balloon payment is due at the end of the fifth year. No interest is charged for the first three months, and then accrues at four percent per annum thereafter.

Detroit Breakfast House

This is a promissory note, dated May 2, 2005, secured by equipment and personal guarantees, with payments of interest only due during the first year, followed by payments of principal and interest over a nine-year amortization period. No interest is charged for the first three months, and then accrues at four percent per annum thereafter.

Book Cadillac Remediation

This is an unsecured loan for the interior demolition and remediation of the Book Cadillac Hotel. No interest or payments are due on this loan. The loan will be forgiven upon the completion of several covenants by the borrower.

NOTE B - NOTES RECEIVABLE (CONTINUED)

Book Cadillac Redevelopment

This is a loan for the renovation of the Book Cadillac Hotel; the loan is secured by a fourth position on the building. Contingent interest payments at five percent per annum are due, based on available cash flow. A balloon payment is due at the end of the 30th year.

Broadway Property and Partners

This is a promissory note, dated February 8, 2006, secured by a second mortgage, a second position Uniform Commercial Code filing, and the personal guarantees of the owners. No annual payments are due; a balloon payment is due seven years from the date of closing.

Lafer Building

This is a nonrecourse loan. No payments are due until seven years from the date of closing, at which time payments of interest only will be due at the same rate as the interest rate on the first position debt. The principal balance will balloon and be due 9.5 years after the date of closing.

Vinton Building

This is a promissory note, dated September 9, 2005, secured by the personal guarantees of the owners. The principal balance of the note will become due and payable upon issuance of a certificate of completion.

Mobius Microsystems

This is a forgivable loan, dated July 1, 2005. DDA provides a monthly amount up to $75 for each employee's parking space, up to a maximum of $72,000 per year. Mobius Microsystems ("Mobius") must provide proof of payment for parking and evidence of employment for those employees that DDA will reimburse for parking. Any violation of the covenants with DDA would result in a full repayment by Mobius.

NOTE B - NOTES RECEIVABLE (CONTINUED)

MMF J Investment Fund, L.L.C.

This is a guarantee note, dated September 14, 2006, under U.S. Department of Housing and Urban Development ("HUD") section 108, to fund the purchase of a non-managing member ownership interest of 99.99 percent in Michigan Magnet Fund J, L.L.C., which is being created to qualify as a community development entity to receive and invest HUD section 108 loan funds and other investment funds in a qualified business entity. Interest accrues at a rate equal to the rate payable by the City under a separate HUD section 108 loan guarantee entered into by the City. Interest only is payable semi-annually during the first seven years of the loan. After seven years, principal and interest are payable semi-annually. The outstanding balance is due in 2026.

Hudson Business Enterprises, Inc.

This note, dated October 9, 2006, was issued to fund a portion of the costs associated with the build-out of leased space located at 1441 Woodward Avenue. Interest accrues a rate of four percent per annum. Monthly payments of interest only are payable through October 1, 2007. Beginning November 1, 2007, monthly payments of $1,932 in principal and interest are payable until the note matures on October 1, 2016.

1466 Brush Street, L.L.C.

This is a promissory note, dated July 28, 2006, to fund the preparation of a building located at 1466 Brush street for build-out. Interest accrues at a rate of four percent per annum. Monthly payments of $2,208 in principal and interest are payable beginning August 1, 2007 until the note matures on July 1, 2016.

In addition, DDA has issued the following notes receivable which management has considered to be uncollectible and have been written off as of June 30, 2007:

Randolph Center Limited Partnership

This UDAG promissory note is dated July 6, 1992 and is secured by a mortgage. There is no fixed interest rate, but annual payments equal to 15 percent of net annual cash flow are scheduled to be made as contingent interest. The entire amount is due 15 years from the completion date of the loan, or no later than August 30, 2008.

NOTE B - NOTES RECEIVABLE (CONTINUED)

SVM Development Corporation

Four notes receivable have been issued to SVM Development Corporation:

- DDA issued a promissory note dated January 29, 1992, secured by a mortgage. No fixed interest is charged on the loan. Contingent interest is due and payable annually based on the net annual cash flow percentage and the net proceeds percentage. There is no requirement to make principal payments during the loan term. By August 16, 2007, the note is payable in one balloon payment sufficient to pay off the entire principal balance and any interest due.

- DDA issued another promissory note dated March 29, 1995, secured by a mortgage. No fixed interest is charged on the loan. Contingent interest is due and payable annually based on the net annual cash flow percentage and the net proceeds percentage. There is no requirement to make principal payments during the loan term. By December 31, 2011, the note is payable in one balloon payment.

- DDA issued a UDAG promissory note dated November 9, 1995, secured by a second position mortgage. The term of the loan is for 15 years with no interest. No principal payments are required until the loan matures. Contingent interest due annually on the loan equals 15 percent of net annual cash flow and 15 percent of net proceeds from refinancing or sale.

- DDA issued a Small Business Loan Transactions Program promissory note dated January 29, 1992, secured by a mortgage and a personal guaranty agreement. No fixed interest is charged on the loan. Contingent interest is due and payable annually based on the net annual cash flow percentage and the net proceeds percentage. There is no requirement to make principal payments during the loan term. By August 16, 2007, the note is payable in one balloon payment sufficient to pay off the entire principal balance and any interest due.

Rootlevel

This promissory note is dated March 20, 2002 and is secured by the borrower's accounts receivable, other assets, and the personal guarantees of the owners. Payments of principal and interest are due monthly on the loan. The loan bears an interest rate of four percent per annum, with a final payment date of April 1, 2007.

NOTE B - NOTES RECEIVABLE (CONTINUED)

The outstanding balances on these notes receivable are as follows as of June 30, 2007 and 2006:

	2007	2006
Madison Center Limited Partnership	$ 3,250,000	$ 3,250,000
Trappers Alley Limited Partnership:		
DDA loan	2,800,000	2,800,000
DEGC loan	982,170	982,170
Little Caesar Enterprises, Inc.	-0-	187,251
Annis Historic Properties	1,103,127	1,119,261
Tobin-Harmonie Park Limited Partnership	1,425,000	1,425,000
Charles A. Forbes	1,980,000	2,157,500
400 Monroe Associates	3,325,038	3,495,646
Leland House Limited Partnership Company	979,648	979,648
KWA I, L.L.C.	4,750,000	4,750,000
Music Hall Center for the Performing Arts	122,519	153,475
Opus to Go, L.L.C.	54,054	74,399
1529 Broadway, L.L.C.	702,028	725,677
DHG Associates Limited Partnership	4,042,692	4,042,692
Brush Street, L.L.C.	-0-	173,954
Fieldstone Properties	178,867	183,415
1521 Broadway, L.L.C.	500,000	500,000
Cloud Nine Entertainment	156,108	156,108
On Wheels, Inc.	-0-	95,128
Kales Building, L.L.C.	1,250,000	1,250,000
Seldom Blues, L.L.C.	328,452	383,969
Redico	3,200,000	3,200,000
1001 Woodward Parking Garage	471,736	500,000
Sportsland, Inc.	200,000	200,000
Michigan Opera Garage	1,026,000	1,026,000
Au Bon Pain	144,161	150,000
Marmalade Enterprises	167,588	184,808
Diversified Restaurant Group	107,733	119,075
Vincente III, L.L.C.	190,000	190,000
Dunwright, L.L.C.	148,300	150,000
Detroit Breakfast House	182,758	200,000
Book Cadillac Remediation	5,800,000	5,800,000
Book Cadillac Redevelopment	5,700,000	5,700,000

NOTE B - NOTES RECEIVABLE (CONTINUED)

	2007	2006
Broadway Property and Partners	$ 750,000	$ 750,000
Lafer Building	420,000	420,000
Vinton Building	250,000	250,000
Mobius Microsystems	3,300	3,300
MMF J Investment Fund, L.L.C.	7,300,000	-0-
Hudson Business Enterprises, Inc.	175,000	-0-
1466 Brush Street, L.L.C.	200,000	-0-
Randolph Center Limited Partnership	-0-	1,555,000
SVM Development Corporation:		
DDA promissory notes:		
January 29, 1992 loan	-0-	900,000
March 29, 1995 loan	-0-	1,000,000
UDAG promissory note	-0-	1,440,000
Small Business Loan Transactions Program promissory note	-0-	300,000
Rootlevel	-0-	166,258
	54,366,279	53,089,734
Less: Allowance for doubtful notes receivable	(25,767,270)	(29,510,598)
Net Notes Receivable	**$ 28,599,009**	**$ 23,579,136**

Accrued interest receivable on these notes receivable as of June 30, 2007 and 2006 is as follows:

	2007	2006
Accrued interest receivable	$ 3,364,493	$ 3,401,353
Less: Allowance for doubtful interest receivable	(2,641,165)	(2,530,671)
Net Accrued Interest Receivable	**$ 723,328**	**$ 870,682**

NOTE B - NOTES RECEIVABLE (CONTINUED)

Changes in the allowances for doubtful notes and interest receivable are as follows for the years ended June 30, 2007 and 2006:

	2007	2006
Balance, beginning of year	$ 32,041,269	$ 19,407,494
Additions:		
Provision for new loans whose proceeds were issued prior to June 30, 2005	-0-	10,075,000
Other additions	1,728,424	2,558,775
Less: Write-off of uncollectible notes receivable	(5,361,258)	-0-
Balance, End of Year	**$ 28,408,435**	**$ 32,041,269**

Because of the long-term nature of these notes receivable and the uncertainty of the time of collection on many of these notes receivable, the fair value of these notes receivable as of June 30, 2007 and 2006, as well as the balances of these notes receivable that will be collected within one year as of June 30, 2007, cannot be readily determined.

NOTE C - PROPERTY TAXES

DDA finances its general and administrative operations with the proceeds of a one-mill levy on the assessed value of the Downtown Development District. A portion of this fund has been designated by DDA's Board of Directors to meet existing contracts outstanding.

Effective July 1, 1978, DDA was authorized to finance its development plan by capturing the tax proceeds on the increases in the assessed value on real and personal property within the tax increment district located within the downtown development area. Funds raised from this levy are restricted for use within the tax increment district.

On July 19, 1978, DDA entered into an agreement with the Wayne County Board of Commissioners to exclude certain proceeds of the tax increment fund which have been previously designated for certain Wayne County operational and construction activities.

The City levies property taxes on July 1 of each year. Property taxes are due to the City on August 15 of each year, but may be paid in two installments, which are due on August 15 and December 31 of each year. Liens are assessed on unpaid taxes on July 1 of each year. The City remits collected property taxes to DDA in December and June of each year.

NOTE C - PROPERTY TAXES (CONTINUED)

Property taxes receivable and property tax advances as of June 30, 2007 and 2006 are as follows:

	2007	2006
Tax increment district and one-mill levy taxes receivable	$ 5,415,918	$ 5,563,940
Less: Allowance for doubtful taxes receivable	(46,845)	(46,845)
Net Property Taxes Receivable	**$ 5,369,073**	**$ 5,517,095**
Tax increment district tax payments received in advance	$ 9,192,198	$ 7,109,778

The allowance for doubtful taxes receivable is based upon the historical uncollectible experience for total real and personal property tax assessments plus allowances for other specific accounts for which collection is uncertain.

In 1994, State of Michigan (the "State") voters passed Proposal A, which affected school property tax revenue. As a result, Tax Increment Plans are only allowed to capture school tax revenue to the extent necessary to cover existing debt service, and the excess must be returned to the State. An audit was completed by the State for the years ended June 30, 1995 through June 30, 2000, but an audit of subsequent years has not been completed as of June 30, 2007; therefore, an estimated allowance has been recorded for those years.

Property taxes are recorded in the development and debt service funds net of any provision for estimated future refunds. No such provision is considered necessary for the years ended June 30, 2007 and 2006.

NOTE D - CAPITAL ASSETS

Nondepreciable capital asset activity for the years ended June 30, 2007 and 2006 is as follows:

	Land
Balance, July 1, 2005	$ 7,544,670
Balance, June 30, 2006	**7,544,670**
Balance, June 30, 2007	**$ 7,544,670**

NOTE D - CAPITAL ASSETS (CONTINUED)

Depreciable capital asset activity for the years ended June 30, 2007 and 2006 is as follows:

	Buildings	Equipment and Fixtures	Leasehold Improvements	Total
Cost:				
Balance, July 1, 2005	$ 26,623,623	$ 160,218	$ 50,000	$ 26,833,841
Balance, June 30, 2006	**26,623,623**	**160,218**	**50,000**	**26,833,841**
Balance, June 30, 2007	**$ 26,623,623**	**$ 160,218**	**$ 50,000**	**$ 26,833,841**
Accumulated Depreciation:				
Balance, July 1, 2005	$ 2,052,459	$ 118,833	$ 25,208	$ 2,196,500
Depreciation expense	887,454	16,224	1,250	904,928
Balance, June 30, 2006	**2,939,913**	**135,057**	**26,458**	**3,101,428**
Depreciation expense	887,454	11,604	1,250	900,308
Balance, June 30, 2007	**$ 3,827,367**	**$ 146,661**	**$ 27,708**	**$ 4,001,736**
Net Depreciable Capital Assets:				
Balance, June 30, 2006	$ 23,683,710	$ 25,161	$ 23,542	$ 23,732,413
Balance, June 30, 2007	$ 22,796,256	$ 13,557	$ 22,292	$ 22,832,105

NOTE E - DUE FROM CITY OF DETROIT

DDA has a loan agreement with the City, under which DDA loans funds to the City to cover the Cobo Hall Expansion Project and operations of the Downtown People Mover System. The loan is unsecured and bears no interest, and will be repaid by the City as general operating funds become available. An allowance for this receivable is included in the allowance for doubtful notes receivable (see Note B) as of June 30, 2007 and 2006.

NOTE F - LAND CONTRACTS RECEIVABLE

DDA has entered into the following land contracts receivable as of June 30, 2007 and 2006:

Woodward Center, L.L.C.

Under this land contract, dated December 9, 1999 and amended February 13, 2001 and December 14, 2001, DDA sold several parcels of land for loft developments. Payment on the contract is due in full on or before August 1, 2007. No interest will be charged if payment is received in full by the due date. As a result of achieving certain goals documented in the land contract, the outstanding balance was reduced by $500,000 during the year ended June 30, 2007. This reduction has been included in project costs in the accompanying statement of activities.

River Place Management, L.L.C.

Under this land contract, dated May 11, 2007, DDA sold one unit in the Riverfront Towers condominium. Monthly payments of $1,993, including principal and interest at a rate of nine percent per annum, are payable, beginning June 1, 2007. The outstanding balance is due by May 1, 2012.

The outstanding balances on these land contracts receivable are as follows as of June 30, 2007 and 2006:

	2007	2006
Resulting from sale of property held for development:		
River Place Management, L.L.C.	$ 94,727	$ -0-
Other:		
Woodward Center, L.L.C.	1,320,200	1,820,200
	$ 1,414,927	**$ 1,820,200**

An allowance for these land contracts receivable is included in the allowance for doubtful notes receivable (see Note B) as of June 30, 2007 and 2006.

The River Place Management, L.L.C. land contract receivable is reflected in both the government-wide financial statements and the fund financial statements since it resulted from the sale of property held for development (see Note G). The Woodward Center, L.L.C. land contract receivable did not involve the sale of property held for development by DDA; therefore, this receivable is not reflected in the fund financial statements, but is reflected in the government-wide financial statements.

NOTE G - PROPERTY HELD FOR DEVELOPMENT

As of June 30, 2007 and 2006, DDA has acquired property for the development of the following projects that are not part of DDA's regular operations:

	2007	2006
Paradise Valley Project	$ 10,118,439	$ -0-
Riverfront Residential Project	9,112,500	9,250,000
Woodward Avenue	3,884,734	3,884,734
Washington Boulevard	935,500	935,500
	$ 24,051,173	**$ 14,070,234**

The Paradise Valley Project consists of properties assembled as part of a master plan to further economic development activities in downtown Detroit by revitalizing the Harmonie Park area with an enhanced physical environment and new investment opportunities. DDA will work to accomplish this by executing a plan to acquire, rehabilitate, and re-position important landmark buildings for business opportunities, to further upgrade public open spaces, and to provide a right of way to create a festive, safe, and inviting environment for the public, as well as by developing other marketing and management tools to help sustain commerce in the area in the future.

NOTE H - LONG-TERM LIABILITIES

Long-term liabilities as of June 30, 2007 and 2006 consist of the following:

Contract Payable

The contract payable consists of amounts due to Amerivision Corporation under a UDAG used to partially finance development of the Trappers Alley Project. The Trappers Alley Project was financed in part with $2,800,000 of UDAG funds received by the City and administered by DDA. The funds were originally loaned to the developer and are to be repaid, contingent upon cash flow, in installments over 40 years. The repayment proceeds will be used to liquidate DDA's obligation.

NOTE H - LONG-TERM LIABILITIES (CONTINUED)

Bonds Contract Payable

The City and DDA have issued the following bonds:

Issued by the City on August 1, 1989 ("1989 bonds"):	
Series 1989A tax-exempt bonds	$ 15,225,000
Series 1989B taxable bonds	71,000,000
	$ 86,225,000
Issued by DDA on April 18, 1996 ("1996 bonds"):	
Series 1996A taxable bonds	$ 75,014,000
Series 1996B tax-exempt bonds	13,330,000
Series 1996C tax-exempt bonds	64,883,198
Series 1996D tax-exempt bonds	14,185,000
	$ 167,412,198
Issued by DDA on September 1, 1998 ("1998 bonds"):	
Series 1998A tax-exempt bonds	$ 68,900,000
Series 1998B taxable bonds	32,195,000
Series 1998C junior lien bonds	21,425,000
	$ 122,520,000

The principal and interest on the bonds are primarily payable from, and secured by, certain incremental property tax revenues to be received by DDA from Development Area No. 1 within the downtown business district (see Note A). Payments on the bonds contract payable are made from the debt service fund under the general bond resolution.

A portion of the 1996 bond proceeds, $87,996,800, was put into an escrow account to repay the 1989 bonds. A portion of the 1998 bond proceeds, $65,124,175, was also put into an escrow account to repay the Series 1996C (partial refund) and the Series 1996D bonds. It is the escrow agent's responsibility for monitoring and making the required debt service payments on those bonds, which are no longer liabilities on DDA's financial statements.

NOTE H - LONG-TERM LIABILITIES (CONTINUED)

Long-term liability activity for the years ended June 30, 2007 and 2006 is as follows:

		Bonds Contract Payable		
	Contract Payable	**Gross**	**Bond Discount**	**Net**
Balance, July 1, 2005	$ 2,800,000	$ 166,473,198	$ 1,492,731	$ 164,980,467
Less:				
Repayments		(11,180,000)		(11,180,000)
Amortization			(70,303)	70,303
Balance, June 30, 2006	**2,800,000**	**155,293,198**	**1,422,428**	**153,870,770**
Less:				
Repayments		(11,865,000)		(11,865,000)
Amortization			(70,303)	70,303
Balance, June 30, 2007	**$ 2,800,000**	**$ 143,428,198**	**$ 1,352,125**	**$ 142,076,073**
Amounts Due Within One Year:				
June 30, 2006	$ -0-	$ 11,865,000	$ 70,303	$ 11,794,697
June 30, 2007	$ -0-	$ 12,605,000	$ 70,303	$ 12,534,697

Maturities of long-term liabilities (excluding the bond discount) are as follows as of June 30, 2007:

For the Years Ending June 30	Principal	Interest	Total
2008	$ 12,605,000	$ 10,454,338	$ 23,059,338
2009	11,995,000	12,187,627	24,182,627
2010	12,755,000	11,419,352	24,174,352
2011	18,030,000	6,132,340	24,162,340
2012	4,321,694	10,557,703	14,879,397
2013-2017	25,697,003	48,722,890	74,419,893
2018-2022	27,415,990	43,479,899	70,895,889
2023-2027	22,363,511	41,646,549	64,010,060
2028-2029	11,045,000	1,147,455	12,192,455
	$ 146,228,198	**$ 185,748,153**	**$ 331,976,351**

NOTE I - ESCROW DEPOSITS PAYABLE

As of June 30, 2007 and 2006, DDA has escrow deposits due to Leland House Limited Partnership Company. These deposits are utilized by DDA to pay tax and insurance obligations related to the Ramada/Leland Hotel project.

NOTE J - RISK MANAGEMENT

DDA has insurance policies covering its directors and officers. It also has general liability insurance and property insurance covering its various assets. At the request of the Board of Directors, DDA has obtained two excess general liability policies in addition to the original policy to ensure sufficient coverage. Due to the extent of insurance that DDA maintains, the risk of loss to DDA, in management's opinion, is minimal.

NOTE K - NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board ("GASB") has issued Statement of Governmental Accounting Standards ("SGAS") No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations." SGAS No. 49 modifies the accounting and financial reporting for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in activities such as site assessments and cleanups. This Statement requires an entity to estimate the components of expected pollution remediation outlays upon the occurrence of one of five specified events and to determine whether outlays for these components should be accrued as a liability or, under certain circumstances, whether these outlays should be capitalized. SGAS No. 49 applies to DDA's financial statements for the year ending June 30, 2009. DDA has not determined the impact, if any, on its financial statements of implementing this Statement.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

SCHEDULES OF REVENUE AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL FUND (UNAUDITED)

For the Years Ended June 30, 2007 and 2006

	2007				2006			
	Original Budget	Final Budget	Actual	Positive (Negative) Variance with Final Budget	Original Budget	Final Budget	Actual	Positive (Negative) Variance with Final Budget
Revenue:								
Property taxes	$ 810,000	$ 810,000	$ 774,726	$ (35,274)	$ 810,000	$ 810,000	$ 819,592	$ 9,592
Other revenue	810,000	810,000	641,967	(168,033)	285,000	285,000	104,540	(180,460)
Total Revenue	**1,620,000**	**1,620,000**	**1,416,693**	**(203,307)**	**1,095,000**	**1,095,000**	**924,132**	**(170,868)**
Expenditures:								
Current:								
Administrative and operating expenses	2,042,000	2,042,000	1,703,439	338,561	2,070,000	2,070,000	1,916,520	153,480
Professional fees	385,000	385,000	408,356	(23,356)	365,000	365,000	381,040	(16,040)
Total Expenditures	**2,427,000**	**2,427,000**	**2,111,795**	**315,205**	**2,435,000**	**2,435,000**	**2,297,560**	**137,440**
Excess (Deficiency) of Revenue over Expenditures	**(807,000)**	**(807,000)**	**(695,102)**	**111,898**	**(1,340,000)**	**(1,340,000)**	**(1,373,428)**	**(33,428)**
Other Financing Sources:								
Interfund transfers	500,000	500,000	500,000	-0-	1,000,000	1,000,000	1,000,000	-0-
Net Increase (Decrease) in Fund Balance	**$ (307,000)**	**$ (307,000)**	**$ (195,102)**	**$ 111,898**	**$ (340,000)**	**$ (340,000)**	**$ (373,428)**	**$ (33,428)**

See note to schedules of revenue and expenditures - budget and actual (general fund).

NOTE TO SCHEDULES OF REVENUE AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL FUND (UNAUDITED)

For the Years Ended June 30, 2007 and 2006

NOTE A - BUDGETS AND BUDGETARY ACCOUNTING

The City of Detroit Downtown Development Authority ("DDA") establishes a budget that is reflected in the financial statements for the general fund. The budget is presented on the modified accrual basis of accounting.

Budgeted amounts are as presented to DDA's Finance Committee and approved by DDA's Board of Directors and the Detroit City Council. No amendments to the budget were made during the year. Appropriations are authorized by DDA's management. Unexpended appropriations lapse at the end of the fiscal year.

George Johnson
& Company

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September 24, 2007

To the Finance Committee and Management
City of Detroit Downtown Development Authority
Detroit, Michigan

In planning and performing our audit of the financial statements of the City of Detroit Downtown Development Authority ("DDA") as of, and for the year ended, June 30, 2007 in accordance with auditing standards generally accepted in the United States of America, we considered DDA's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DDA's internal control. Accordingly, we do not express an opinion on the effectiveness of DDA's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects DDA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of DDA's financial statements that is more than inconsequential will not be prevented or detected by DDA's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by DDA's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management, the Finance Committee, and others within DDA and is not intended to be, and should not be, used by anyone other than these specified parties.

George Johnson & Co.

CERTIFIED PUBLIC ACCOUNTANTS